Supreme Court, U.S.
FILED
JUL 25 1997
CLERK

No. 97-2 (3)

IN THE
Supreme Court of the United States
OCTOBER TERM, 1997

WESTINGHOUSE ELECTRIC CORPORATION,
Petitioner,

vs.

GENERAL CIRCUIT BREAKER & ELECTRIC SUPPLY INC., et al.,
Respondents.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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20 pgs

QUESTIONS PRESENTED FOR REVIEW

1. May a plaintiff, who is aware of defendants' infringing use of its mark and unreasonably delays bringing suit to the detriment of defendant, escape the bar of laches based merely upon its unawareness that such infringing activity involved, on occasion, the use of a copied mark which might entitle it to enhanced monetary damages?

2. Under circumstances where an erroneous jury instruction results in a miscarriage of justice and the result of a retrial of the affected issue would be dictated, under principles of issue preclusion, by a jury determination unaffected by the erroneous instruction, is it error for the district court to enter judgment based upon the unaffected jury determination instead of ordering a new trial?

RULE 29.6 LISTING

Pencon International, Inc. doing business as General Magnetics/Electric Wholesale submits that it has no parent companies, subsidiaries or affiliates.

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BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

STATEMENT OF THE CASE

A. Background

Westinghouse is a major manufacturer and seller of molded case circuit breakers. Each breaker has a label bearing the Westinghouse trademark and listing information about the breaker's electrical characteristics. Defendants recondition and resell used Westinghouse circuit breakers. Sometimes reconditioning requires minimum effort. At other times, defendants must replace certain components with Westinghouse parts. Before 1988, defendants often replaced faded or otherwise illegible paper labels, but if the original labels were in good shape, defendants left them on the breakers. Petitioner's Appendix B, pp.2-3.

The labels on the reconditioned breakers contained the same information as the original Westinghouse labels, including the Westinghouse trademark. Petitioner's Appendix B, p.3.

Replacing worn labels was not an effort to deceive, but a necessary part of reconditioning. As conceded by Westinghouse, its labels do more than identify Westinghouse as the manufacturer--they provide critical information regarding the breaker's electrical characteristics. Various electrical codes and standards require breakers to bear such information. Petitioner's

Appendix B, p.5.

Defendants did not add a notation to any of their breakers indicating that the breakers were reconditioned. Petitioner's Appendix B, p.3. They did not do so because they were well known in the market as reconditioners of obsolete circuit breakers. Petitioner's Appendix B, p.3, 4.

Westinghouse was the largest customer of the defendants and resold defendants' reconditioned circuit breakers without labeling them "reconditioned". Petitioner's Appendix B, p.3.

B. The Pleadings

In 1988, Westinghouse filed suit setting forth claims of trademark infringement under 15 U.S.C. section 1114, trademark infringement under 15 U.S.C. section 1125, trademark dilution under California Business & Professions Code section 14330, and unfair competition under the common law and California Business & Professions Code section 17200. Contrary to the repeated assertions of Westinghouse in its petition to this Court, the complaint did *not* set forth any separate count or cause of action based upon counterfeiting under 15 U.S.C. section 1117. Instead, as part of its cause of action for trademark infringement under section 1114, Westinghouse alleged it was entitled to remedies of treble damages and attorneys fees under section 1117 because the 1114 infringement involved counterfeiting. Supplemental Excerpts of Record of Appellees and Cross-Appellants Pencon International, Inc., General

Magnetics/Electric Wholesale and Estate of Charley Contreras, pp. 1-15.

The essence of all the causes of action was that Westinghouse circuit breakers were being resold without disclosure that the breakers were reconditioned.

Defendants did not deny selling reconditioned breakers with the Westinghouse mark and failing to label them as reconditioned. However, defendants maintained that they had not intended to deceive anyone, and that Westinghouse knew, or certainly should have known, that defendants were selling reconditioned breakers bearing the Westinghouse mark. Defendants asserted affirmative defenses, including laches, equitable estoppel, acquiescence, and unclean hands. Petitioner's Appendix B, p.3.

C. The Trial--The Instructions And The Verdict

At trial, the jury was instructed that all of Westinghouse's claims dealt with the use of trademarks. Final Supplemental Excerpts of Record of Appellees and Cross-Appellants Pencon International, Inc., General Magnetics/Electric Wholesale and Estate of Charley Contreras (hereafter "GMEW Final Supplemental Excepts of Record"), p.2. The jury was also instructed that both the section 1114 and 1125 claims "arise from defendants' use of plaintiff's trademarks." GMEW Final Supplemental Excerpts of Record, p.3.

The jury was repeatedly charged in instructions that Westinghouse was maintaining a claim brought under section 1114, not under section 1117. GMEW Final Supplemental Excerpts of Record, pp.3, 6-7. The jury was charged that "[u]nder Section 1114, the plaintiff has the burden of proving the following elements ... the defendant used a reproduction, counterfeit, copy, or colorable imitation of the plaintiff's trademarks, ... without plaintiff's consent ... in connection with the sale ... of goods ... in commerce; and ... such use is likely to cause confusion ...". GMEW Final Supplemental Excerpts of Record, p.5.

At no time was section 1117 mentioned in the jury instructions. While the jury answered a special verdict that defendants intentionally used Westinghouse's mark knowing that it was a counterfeit, no guidance was provided by way of jury instruction to assist the jury in answering the special verdict. The jury was not instructed that if defendants believed in good faith that use of the copied mark did not infringe Westinghouse's mark, they could not be said to "know" that the mark was counterfeit. The jury was simply instructed that defendants admitted application of copies of plaintiff's mark to breakers and, if done without Westinghouse's authorization, the copies are counterfeits. GMEW Final Supplemental Excerpts of Record, p.6.

The special verdict inquired if Westinghouse had proved its case under section 1114, not 1117. Excerpts of Record, pp.476, 479, 482, 485.

Westinghouse's Petition asserts that its section 1125 claim, as tried to the jury, was "directed at defendants' practice of selling used and reconditioned circuit breakers, bearing *original* Westinghouse labels, without disclosing the fact that the breakers were not new." Petition, p.12; emphasis added. In fact, the section 1125 claim was not so limited to sales of breakers bearing the original mark. Indeed, the section 1125 claim encompassed *any* infringing use of plaintiff's mark.

The jury was instructed that in order to prevail on its claim under section 1125, Westinghouse was "not required to prove defendants used copies, reproductions, colorable imitations or counterfeits of the Westinghouse trademarks. Instead, *this claim is based on any use by the defendants of the Westinghouse trademarks* in connection with the sale of used or reconditioned circuit breakers." GMEW Final Supplemental Excerpts of Record, p.15-16; emphasis added. As such, the section 1125 claim, like the section 1114 claim, encompassed any trademark infringement involving the use of copied marks.

The jury answered the special verdicts finding that Westinghouse had proved it claims under sections 1114 and 1125. Having so found, as required by the jury instructions, the special verdict on plaintiff's claim under the California Business & Professions Code was in favor of plaintiff. The jury found against Westinghouse on its common law unfair competition claim as well as under

its trademark dilution claim. Excerpts of Record, pp. 476-487.

On the affirmative defenses, the jury found for the defendants on each affirmative defense to the section 1125 claim and every other claim, save the claim under 1114. Ibid.

D. The Erroneous Jury Instruction And The District Court's Use Of The Untainted, Jury Verdict In Awarding Judgment

As Westinghouse acknowledges, the essence of both the section 1114 and 1125 claims was the use of the Westinghouse mark on breakers without disclosure that the breakers weren't new. Petition, p.12. As the section 1125 claim subsumed the section 1114 claim, the trial court was perplexed by the jury's verdict in favor of defendants on the affirmative defenses to the section 1125 claim, but not on the section 1114 claim-- the evidence establishing defenses to the 1125 claim should also establish the same defenses to the 1114 claim. Petitioner's Appendix B, p.6.

The trial court recognized that the jury verdict for the defendants on the defenses to the section 1125 claim could only be based upon a jury finding that defendants did not intend to deceive or confuse because the jury was instructed that if defendants intended to deceive or confuse, none of its affirmative defenses could be established. Petitioner's Appendix B, pp. 12-13.

The only explanation for the inconsistency in the special verdicts on the affirmative defenses to sections 1114 and 1125 was jury instruction #65. It required defendants to show that Westinghouse knew, or should have known, that defendants were duplicating the Westinghouse trademark, rather than merely using the original Westinghouse mark, in order to prove their affirmative defenses to section 1114. Petitioner's Appendix B, p.9.

The trial court recognized the erroneous nature of jury instruction #65. Under established case authority, section 1114 trademark liability is not dependent upon use of a copy or counterfeit of the mark. Liability may be established whether the original mark or a copy is used. Petitioner's Appendix B, pp. 20-26

So long as Westinghouse knew, or should have known, of defendants' infringing use of its mark, the affirmative defenses were established. It made no difference whether Westinghouse knew the infringement was through use of the original mark or a copy. Petitioner's Appendix B, p. 19.

Under the circumstances, there was no need for a new trial on the section 1114 claim. The jury's verdict for defendants on their affirmative defenses to the section 1125 claim necessarily determined that Westinghouse knew or should have known of defendants' infringing use of its marks on breakers and that defendants had intended no deception or confusion. Judgment was entered for defendants. Petitioner's Appendix B, pp.30-31.

E. The Appellate Decision

On appeal, the Ninth Circuit affirmed the trial court judgment. Petitioner's Appendix A. In so doing, the appellate court concurred that the propriety of jury instruction #65 was the fulcrum of the case and that so long as defendants proved that Westinghouse knew, or should have known, of defendants' infringing use of its mark, they need not also prove Westinghouse knew that the infringing use was by means of a copy or counterfeit. Petitioner's Appendix A, pp.10-14.

Additionally, the appellate court found the district court's remedy for the erroneous jury instruction entirely appropriate under the circumstances. The district court's actions were found directly analogous to the ordinary application of issue preclusion. The untainted jury determination of the applicability of the affirmative defenses to the section 1125 claim compelled the same result on the section 1114 claim. Petitioner's Appendix A, pp.14-18.

REASONS FOR DENYING THE WRIT

The decision of the United States Court of Appeals below was a plainly correct application of settled law and is not in conflict with the decision of any other United States court of appeals on the same matter.

1. Stripped of window-dressing, Westinghouse advances the remarkable proposition, wholly unsupported by any authority, that while Westinghouse may have

unreasonably slept on its rights after knowledge of defendants' alleged infringing activities so as to bar recovery for trademark infringement under 15 U.S.C. section 1114 [Lanham Act section 32] or under 15 U.S.C. section 1125 [Lanham Act section 43], nonetheless, Westinghouse may still prevail on a "trademark counterfeiting claim" under 15 U.S.C. section 1117 [Lanham Act section 35] because, though aware of infringement, Westinghouse was unaware that the infringement sometimes included the use of counterfeit or copied labels.

Thus, if Westinghouse knew of an infringing use of its mark on every single reconditioned breaker ever sold by defendants and unreasonably slept on its rights to the detriment of defendants, Westinghouse argues that it is not barred by laches. The very statement of the proposition argues against its acceptance.

Westinghouse's argument is fatally flawed for several reasons. First, Westinghouse fails to distinguish between a "claim" and a "remedy". Section 1117 merely provides monetary relief as remedies for a violation of section 1114. Among the remedies so provided are the enhanced remedies of treble damages and attorney's fees when trademark infringement, found under section 1114, is accomplished by culpable counterfeiting. 15 U.S.C. section 1117 (b). By the terms of section 1117, its enhanced remedies depend upon the establishment of a violation of section 1114. Ibid.; *Babbit Electronics, Inc. v. Dynascan Corporation*, 38 F.3d 1161, 1181 (11th Cir. 1994). Where, as conceded by Westinghouse, defenses to trademark infringement under section 1114 exist, the

defenses have destroyed the very foundation for remedies provided by section 1117. As a remedial measure, section 1117 cannot lift itself by its bootstraps and resurrect a section 1114 claim barred by laches.

Secondly, the public purpose served by the affirmative defenses, including laches, requires rejection of Westinghouse's thesis. Westinghouse's knowledge of defendants' infringing use of its mark is all Westinghouse needed to know in order to take action to protect its mark and seek redress for its misuse under either section 1114 or 1125. As recognized in scores of decisions cited in the opinions of the district and appellate courts in this matter, if defendants sold circuit breakers bearing the Westinghouse trademark without disclosure that the breakers were reconditioned, Westinghouse could sue under section 1114 for trademark infringement regardless of whether the labels on the breakers were originals or copies. See cases collected in *In re Circuit Breaker Litigation*, 852 F. Supp. 883, 894 (C.D.Cal. 1994); *Westinghouse Electric Corporation v. General Circuit Breaker & Supply, Inc.*, 106 F.3d 894, 900 (9th Cir. 1997).

Westinghouse unreasonably delayed such action and was found barred by laches. Laches is an equitable defense closely analogous in purpose to the statute of limitations and is embodied in the concept that equity aids the vigilant, not those who slumber on their rights. 4 McCarthy On Trademarks And Unfair Competition, (4th ed. 1997), section 31:1, p.31-8.

There is no justification for Westinghouse, despite knowledge of infringement, sleeping on its rights because Westinghouse didn't know that the infringement included use of copied labels. Plaintiff's knowledge of facts necessary to treble plaintiff's damages is simply not a pertinent matter for consideration in determining whether plaintiff has slept on its rights. See *Louisiana-Pacific Corporation v. Asario, Inc.*, 24 F.3d 1565, 1580-1581 (9th Cir. 1994); *United States v. Gavilan Joint Community College Dist.*, 849 F.2d 1246, 1249-1250 (9th Cir 1988) [accrual of action not dependent upon knowledge of exact amount of damage where essence of injury known].

Westinghouse's arguments are frivolous and akin to a prosecutor contending that, despite a verdict that the defendant is innocent by reason of insanity, the death penalty is warranted due to the special circumstance of lying in wait. Similarly, a plaintiff, run over in a cross-walk, would contend that the personal injury action against the negligent driver was not barred by the statute of limitations because plaintiff didn't learn until after the limitations period had run that the driver was intoxicated --a circumstance giving rise to a possible award of punitive damages.

Westinghouse has not, and cannot, cite any conflicting decision of another United States court of appeals suggesting that a claim, otherwise barred by laches, can be salvaged because of delayed discovery of facts relating the extent of damages. Knowing of defendants' allegedly infringing use of its mark on reconditioned circuit breakers without disclosure that the breakers were reconditioned is all Westinghouse needed

to know to bring suit under either section 1114 or section 1125 to recover monetary remedies provided by section 1117. If Westinghouse had been diligent in protecting its rights and filed suit, Westinghouse could have learned through discovery facts relating to the extent of its permissible recovery under section 1117.

Instead, Westinghouse, continued to profit from its sales of defendants' reconditioned breakers while defendants expended time and money expanding their capability to satisfy demand for obsolete circuit breakers which Westinghouse could not satisfy due to its program of planned obsolescence. The jury properly concluded Westinghouse's section 1125 claim was barred by affirmative defenses. The District Court and Circuit Court of Appeals, based upon settled law, correctly determined that jury instruction # 65 placed an inappropriate burden of proof upon defendants with respect to their affirmative defenses to the section 1114 claim.

Based upon the above, this Court's review of the first question presented by Westinghouse's Petition is warranted.

2. Westinghouse contends that even if the jury verdicts on the affirmative defenses to the section 1114 and 1125 claims were inconsistent, the jury verdict on the section 1114 claim should not have been disturbed because the verdict was supported by substantial evidence and inconsistent verdicts are acceptable. The argument misses the mark for several reasons.

First, due to the obviously prejudicial nature of the erroneous jury instruction # 65 on defendants' burden of proof, regardless of any inconsistency between the verdicts on the two claims, the jury verdict on the section 1114 claim was doomed, whether it be by the District Court ordering, on its own, a new trial or by reversal upon appeal. The real issue confronting the District Court and Circuit Court of Appeal below was whether, given the erroneous instruction and the issues necessarily decided as part of jury's verdict in favor of defendants on their affirmative defenses to the section 1125 claim, any need for a retrial of the section 1114 claim existed.

Additionally, regardless of whether or not the jury's verdict was supported by substantial evidence, the fact remains that had the jury been correctly instructed, a favorable verdict for defendants was probable on the section 1114 claim. Indeed, the conclusion of the District Court and Circuit Court of Appeals below was that a favorable verdict was not only probable, but certain. As such, plaintiff's verdict on the section 1114 claim could not stand where afflicted with reversible error in jury instructions.

Westinghouse has not, and cannot, cite any authority that courts have an obligation to uphold jury verdicts which are tainted by prejudicial error in jury instructions. Indeed, the district court had the power to *sua sponte* order a new trial. Fed.R.Civ.P. 59 (d). Moreover, Westinghouse has not presented to this Court any question for review regarding the propriety of entering judgment, rather than ordering a new trial, on the section 1114 claim due to issue preclusion arising from

the jury's verdict on the defenses to the section 1125 claim. For such reasons, review of the second question presented by Westinghouse's Petition is not warranted.

CONCLUSION

This case does not merit further review by this Court. For the reasons set forth above, Westinghouse's Petition should be denied.

Dated: July 25, 1997.

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